### **Impacts**

- Reduced Service Quality
- Reduced Ability to Provide Service to all Customers
- No Incentive To Invest in Networks
- Eliminated Jobs
- Slower Deployment of New Services
- \* Increased Cost of Capital
- Weakened Equipment Suppliers

### **Next Steps**

- Current regulatory regime regarding UNE-P and pricing is unsustainable
- Turmoil in industry calls for quick and decisive action
- As long as we have carrier of last resort obligations, prices must be set to recover our costs
- There are many ways to solve this problem, but time is extremely short. Whatever direction the FCC moves, it must be effective in a very short period of time

### Key Analyst Reports on UNE-P

August 2002



### Global **Equity** Research



August 20, 2002

Telecommunications--Wireline

**United States** 

### SBC Communications, Inc. (SBC)[2,37,80]

Hold

### **Key Statistics**

\$29 87
<b>347-2</b> 3
\$30.00
4.0%
99.321
325.1
100%
47.0%
8,803
3/3.6%
3%
No

### Quarterly Earnings Per Share (fiscal year ends December)

	2001A	2002E	Prev	2003E	Prev
10	\$0.51	\$0.51A			
2Q	0.61	0.61A			
3Q	0.59	0.58			
4Q	0.64	0.61			
Year	\$2.35	\$2.31		\$2.25	\$2.36
FC Cons.:	\$2.35	\$2.30		\$2.36	
P/E:	12.7x	12.9x		13.3x	
Revs.(MM):	\$45,908	\$43,325		\$42,308	

SBC Communications through its brands—Southwestern Bell, Ameritech Pacific Bell, SBC Telecom, Nevada Bell, SNET, and Cingular-provides local and long distance wireline service, wireless and data communications, high-speed internet access and messaging services, as well as directory advertising and publishing. SBC is the second-largest U.S. local service provider. Cingular Wireless, its 60:40 joint venture with BellSouth (SBC has 60%), is the second-largest U.S. wireless provider, with more than 22 million

Source, UBS Warburg LLC and First Call consensus estimates

Revenues do not include proportionate share from Cingular.

### SBC: Downgrading to Hold from Buy Based on Competitive Fears from UNE-P

### Summary

**DETAILED UNE-P STUDY.** We have completed an analysis of UNE-P based economics from a Bell perspective and found 1) economics per line lost is worse than expected, with the average wholesale line producing negative EBITDA in SBC's region. 2) line loss is expected to grow rapidly as we estimate the company will lose 1M to UNE-P in the third quarter alone and 3) the long distance opportunity is only a partial offset as the EBITDA effects of UNE-P are hard to counter with low margin LD.

### Action

DOWNGRADE TO HOLD. We are downgrading shares of SBC to Hold from Buy based on our UNE-P analysis. We anticipate that the growth of UNE-P will have a significant infipact on SBC's 2003 earnings and that it will be difficult for the company to hit the Street's growth expectations for the year.

### Valuation

**LOWER PRICE TARGET TO \$30.** Our new price target of \$30 per share (prev. \$36) is based on our discounted cash flow analysis. This lowered target incorporates changes to our models to reflect the effects of UNE-P based competition.

### Additional Information

We will be holding a conference call to discuss our analysis of UNE-P economics for the Bells on August 20<sup>th</sup> at 11:00am. Dial-in information is 800-665-0430 in the U.S. or 913-981-5591 international

### John Hodulik, CFA +1-212-713 4226

john.hodulik@ubsw.com

### Batya Levi, Associate Analyst +1-212-713 8824

batya.levi@ubsw.com

### Robert Hopper, Associate Analyst +1-212-713 9266

robert.hopper@ubsw.com

### Companies mentioned and disclosures at end of note

### SBC -- In the UNE-P Wheelhouse

SBC has lost more retail lines to UNE-P than any other Bell at 3.45 million, including 692,000 in the second quarter alone. The 692,000 UNE-P lines equate to 1.27% of SBC's 54.8 million total retail access lines at the end of the first quarter while the imbedded base equates to 5.9% of the company's total switched lines (including wholesale). In the second quarter, SBC added 494,000 residential UNE-P lines, representing more than 51% of the loss in the retail residential line base. Second line losses accounted for another 26% of retail residential line losses while management suggested seasonality contributed the bulk of the remainder.

Table 1: Access Lines Statistics for SBC (000s)

	1 <b>Q01</b>	2Q01	3Q01	4Q01	1002	2002
Total access lines	61,254	60.578	60,230	59 532	59.036	58.255
% growth	·2 5%	-3 7%	-4.0°c	-4 7°c	-5 0%	-4 7%
Net Adds	-16	-676	-348	-698	-496	-781
UNE-P	1 373	1,760	2,159	2 403	2.761	3,453
Net Adds	361	387	399	244	358	692
% of total lines	2. <b>2%</b>	2 9%	3 6%	4 0° c	4 7%	5.9%
Retail residential lines	35 878	35,255	34.946	34,518	34.129	33.168
% growth	2 6%	-3 7%	-3.8%	-4 3%	-4 9%	-5.9%
Net Adds	200	-623	-309	-428	-389	-961
Residential UNE-P	70	94	89	92	162	656
Net Adds	-6	24	-5	3	70	494
% of res lines lost	-3.0%	3.9%	-1.6%	0.6%	17.9%	51.4%

Source UBS Warburg LLC estimates

We believe SBC has the most attractive region for UNE-P providers. The average monthly bill for local service is among the highest while its UNE-P rates are the lowest, making it relatively easy for competitors to earn decent margins. This is especially true in the Ameritech region. Ameritech and California also have a large number of dense urban areas with very low loop rates that provide ample feeding ground for resellers.

Based on our analysis, SBC also takes the hardest hit for each retail line lost to UNE-P competitors. We estimate that the company loses approximately \$19.76 in net revenue per line per month for each retail line lost to competitors. This compares to \$17.89 for Verizon. \$18.29 for BellSouth and \$14.73 for Qwest. In the Ameritech region, where the company is under full-scale attack, the company loses approximately \$21.73 per line per month in net revenue. The EBITDA impact is also most severe at SBC. We believe the company generates over \$13.53 in EBITDA per retail residential line per month but *loses* roughly \$3.51 in EBITDA per month on lines converted to wholesale via UNE-P. SBC is the only Bell to generate more than \$1.00 of negative EBITDA per month on its wholesale line base. Thus the negative EBITDA swing from retail to wholesale is more than \$17.00 per line per month, also the largest for the Bells with the other three in the -\$12 to -\$16 range. In the Ameritech region, this figure is approximately -\$19.00 per line.

Line losses to UNE-P have shifted from the business to the residential market. In the second quarter, UNE-P took 494,000 residential lines and just 117,000 business lines, down from 393,000 business lines in the first quarter. Michigan was hit hardest with 184,000 lines converted from retail to wholesale in the state during the second quarter. AT&T, which began marketing in January 2002, claims to have garnered 6% residential market share in Michigan six months. Texas has seen the largest total line loss to date from UNE-P with over 1.57 million wholesale lines (both UNE-P and TSR) in the state. Wholesale net adds have slowed dramatically in Texas, however, as AT&T has pulled back on its marketing efforts due to relatively low discounts available.

We expect line loss to continue to ramp up in SBC territory in the second half of 2002 and believe the company will lose approximately 1 million retail lines to UNE-P in the third quarter. We believe that roughly half of the line loss in the second quarter occurred in the month of June. Considering the steep growth within the second quarter and AT&T's entry into the Ohio and Illinois markets in mid-June and the California market in early August, our numbers could prove conservative. With another 1.2 million UNE-P line projected for the fourth quarter, we now expect residential line loss of 9.1% and 12.6% in the third and fourth quarter, respectively. This also suggests that by year end. 10% of total switched access lines will be UNE-P. Again, we note that our analysis suggests that wholesale lines generate negative EBITDA on a weighted average basis. In 2003, we expect the company to lose 3.41 million lines, up from 3.25 million for all of 2002.

Much depends on the company's ability to secure long distance approval in California in the near term, which should dampen (but by no means eliminate) line loss while helping to offset much of the revenue loss, similar to the results in 271-approved Southwestern Bell states. The Administrative Law Judge (ALJ) in California has approved the company's application and the full public utility commission to is expected to vote on September 19th, a short delay from the recently proposed date of August 22nd. A positive outcome for the Bell could enable SBC to begin marketing interLATA services in California in late December. Ameritech is a different story however, as we do not expect the company to receive approval for long distance in these states until the second half of 2003.

### Estimates and valuation

Based on changes to our model resulting from this analysis, we are reducing our 2003 EPS estimate to \$2.25 from our previous estimate of \$2.36, while maintaining our 2002 EPS estimate at \$2.31. This translates to a 2.3% decline in EPS in 2003 versus our previous estimate for 2.1% growth. It compares unfavorably with the 1.8% EPS decline we continue to expect for 2002. We now expect total proportionate revenues to decline by 1.3% in 2003 following the 3.9% decline in 2002. Our previous estimate was suggesting a 1.1% growth in revenues. We now expect EBITDA to decline by 1.9% versus our previous assumption for a 0.5% growth in 2003.

SBC is currently trading at roughly 13.3x our new-estimates for 2003. Given that we do not expect the company to generate enough growth to reach its 2001 EPS of \$2.35 until 2006, we believe it will be difficult for the company to outperform the market at these levels. In calculating our new 12-month price target of \$30 per share, we conducted a discounted cash flow analysis, employing a 7% discount rate, a terminal value that assumes 2.5% perpetuity growth and a 20% private market discount.

Table 2: Changes to SBC Estimates (\$MM)

			2002				2003		% gro	wth
	Old	New	\$ change	% Change	Old	New	\$ change	% Change	Old	New
Wireline Revenue	38.768	38,601	-167	-0 4%	38.884	37.482	-1,402	-3.6%	0.3%	-2.9°.
Total Revenue	52.372	52,205	-167	-0.3%	52,937	51.535	-1,402	-2.6%	1 1%	-1. <b>3</b> %
EBITDA	21.377	21,357	-20	-0.1%c	21 479	20.958	-521	-2 4%	0.5%	-1 9%
Net Income	7.728	7,715	-13	-0.2%	7,811	7,462	349	-4.5%	1.1%	-3 3°°
EPS	\$2.31	\$2.31	(\$0.00)	-0.2%	\$2.36	\$2.25	(\$0.11)	-4.5%	2.1%	-2.3%

Source, UBS Warburg LLC estimates

### Statement of Risk

Risks include management's ability to execute, potential adverse changes in regulation, changes in technology, the effects of a weak economy, increasing competition and a large degree of operating leverage.

<sup>3</sup> UBS Warburg LLC

'n

'n

1

\*1

1

£

### Global rating definitions and allocation

Rating	Definition	% of companies under coverage with this rating	% for which IB services have been provided
Strong Buy	Greater than 20% excess return potential; high degree of confidence	12%	53%
Buy	Positive excess return potential	39%	38%
Hol <b>d</b>	Low excess return potential: low degree of confidence	44%	28%
Reduce	Negative excess return potential	4%	22%
Sell	Greater than 20% negative excess return potential; high degree of confidence	1%	11%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12- month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.

\*Investment banking services include, but are not restricted to, acting as manager/co-manager in the underwriting or placement of securities (within the past three years), acting as financial advisor, and/or providing corporate finance or capital-markets-related services to a company or one of its affiliates or subsidiaries (within the past 12 months).

Source: UBS AG, its subsidiaries and affiliates; as of 30 June 2002.

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.

37. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this

80. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company within the next three months.

Unless otherwise indicated, please refer to the Valuation and Risk sections contained within the body of this report.

For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Warburg LLC, 1285 Avenue of Americas, New York, New York, 10019, Attention: Publishing Administration.

### UBS Warburg LLC, 1285 Avenue of the Americas, New York, NY 10019 Phone: +1-212-713-2000

This material has been prepared by UBS AG or an affiliate thereof ("UBS"), acting through its business group UBS Warburg. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report is published solery for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Opinions expressed herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep the information current. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. UBS and/or its directors, officers and employees or clients may take positions in, and may make purchases andior sales as principal or agent or UBS may act as market-maker in the securities or related financial instruments discussed herein. UBS may provide investment banking and other services to and/or service as directors of the companies referred to in this report. UBS, its related entities, directors, employees and agents accept no liability for any loss or damage of any kind ansing out of the use of this report. UBS, the related entities directors, employees and agents accept no liability for any loss or damage of any kind ansing out of the use of this report. UBS, the related entities directors, employees and agents accept no liability for any loss or damage of any kind ansing out of the use of this report is being distributed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. This report is being distributed in UBS Parine

© 2002 UBS AG . All rights reserved. This report may not be reproduced or distributed in any manner without the permission of UBS



•,

ũ

ij

1

### The Regional Bells: How Much Pain from UNE-P?

John Hodulik, CFA Batya Levi Robert Hopper, CPA

212-115-4226 gold.becullkerdsween

212-715-8824 (batya.lev (@40)8w.com) 212-715-9266 (robert.hopper@408w.com)





### **UNE-P** Economics: Downgrading the Bells

### Downgrading BellSouth , SBC and Verizon to Hold from Buy

- Analysis of UNE-P economics suggests pressure on profitability for the Bells
- We now expect earnings to decline 1.8% vs. prev. expectation for 2.6% growth (Street estimates are for 2-5% growth).
- We expect long-term FCF growth of 2-3% vs prev. expectation for 3-4% growth

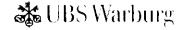
### Lowering Price Targets

- New price targets based on our reduced FCF estimates in our DCF analyses:
  - BellSouth: \$26 (previously \$28);
  - SBC: \$30 (previously \$36);
  - Verizon: \$34 (previously \$50)

### We Expect Market Performance Over the Next 12 Months

Attractive dividend yields should limit downside





John Hodulik, CFA (212) 713-4226, john.hodulik@ubsw.com



### **UNE-P** Economics : Changes to Estimates

					В	ellSouth				
			2002				2003		% grov	vth
	Old	New	\$ change	% Change	Old	New	\$ change	% Change	Old	New
Wireline Revenue	18,421	18,312	-109	-0.6%	18,731	17,993	-738	-3.9%	1.7%	-1.7%
Total Revenue	29,009	28,900	-109	-0.4%	29,582	28,842	-740	-2 5%	2.0%	-0.2%
EBITDA	12,837	12,784	-53	-0.4%	13,120	12,761	-359	-2.7%	2.2%	-0.2%
Net Income	4,035	3,924	-111	-2.7%	4,217	3,836	-380	-9.0%	4.5%	-2.2%
EPS	\$2.14	\$2.09	(\$0.05)	-2.3%	\$2.18	\$2.02	(\$0.16)	-7.3%	1 9%	-3.2%
						100			the second second	• · · · · · · · · · · · · · · · · · · ·



### SBC 2003 % growth 2002 \$ change % Change Old New \$ change % Change Old New Old New 0.3% -2.9% -1,402 -36% -167 -0.4% 38,884 37,482 38,768 38,601 Wireline Revenue 1 1% 51,535 -1,402 -2.6% -1.3% 52,372 52,205 52,937 Total Revenue -167 -0.3% -2 4% 0.5% -1.9% **EBITDA** 20,958 -521 21,377 21,357 -20 -0.1% 21,479 -349 -4.5% 1.1% -3.3% -0.2% 7,811 7,462 Net Income -13 7,728 2.1% -23% -0.2% -4.5% **EPS** \$2.31 \$2.36 (\$0.11)(\$0.00)

						Verizon				
			2002				2003		% grov	wth
	Old	New	\$ change	% Change	Old	New	\$ change	% Change	Old	New
Wireline Revenue	40,912	40,897	-15	0.0%	39,655	39,136	-519	-1.3%	-3.1%	-4.3%
Total Revenue	66,737	66,722	-15	0.0%	67,092	66,575	-518	-0.8%	0 5%	-0.2%
EBITDA	29,049	28,772	-277	-1.0%	28,836	28.160	-676	-2.3%	-0.7%	-2.1%
Net Income	8,332	8,150	-182	-2.2%	8,587	8.130	-457	-5.3%	3.1%	-0.2%
EPS	\$3.05	\$2.98	(\$0.07)	-2 2%	\$3 12	(\$2.96)	(\$0.16)	-5.1%	2 3%	-0.7%





### **UNE-P Economics: Glossary**

### Unbundled Network Elements (UNE)

— The individual parts of the local telephone network (7 elements including: local loop, switches, transport and OSS) that ILECs are required to "unbundle" and lease out to CLECs. Competitors can lease out one or all of the available UNEs to provide service.

man man and a man and the contract of the state of the st

### Unbundled Network Element-Platform (UNE-P)

 Use of ALL the UNEs to provide service, requiring minimal capital outlays or asset deployment.

### Retail Lines

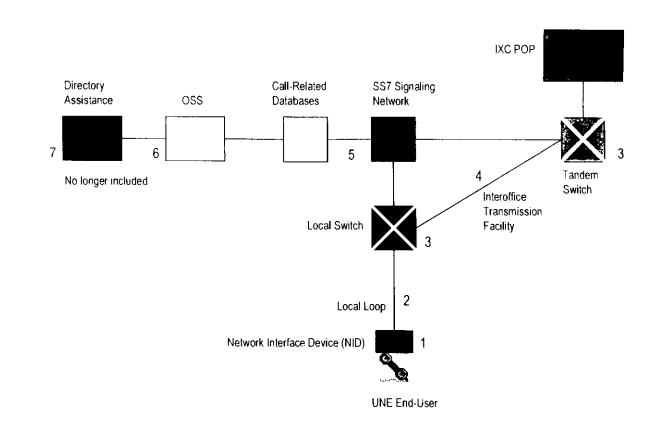
Access lines sold directly to the end user from the ILEC.

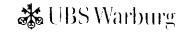
### Wholesale Lines

 Access lines sold to competitors (AT&T and MCI), which resell the lines to end users.



### **UNE-P Economics: UNE-P Diagram**







### UNE-P Economics: What's the Big Deal?

### UNE-P Competition Has Intensified in Recent Months...

- MCI's Neighborhood Plan (commenced in April '02; exited 2Q with 800K lines)
- AT&T (recently entered 3 SBC states [24M residential lines]; plans to enter NJ [4.5M residential lines] in Sept 2002)
- Other operators
  - Sprint is considering this strategy; others include Z-Tel, Talk America, and SupraTelecom (which added 120K UNE-P lines in FL in 2Q02)

### Due to More Favorable Economics of UNE-P for Competitors

- Public Utility Commissions continue to set lower rates
  - Recent reductions in California, New York, New Jersey, Pennsylvania

### Second Quarter Results Revealed the Bells' Exposure

- Over 1.1 million retail lines converted to wholesale through UNE-P in 2Q
  - SBC: 692K added vs. 358K in 1Q02;
  - BellSouth: 278K added, vs 239K in 1Q02;
  - Verizon: 110K added vs. 64K in 1Q02



### UNE-P Economics: The Rebundlers

77

η

71

ή

-11

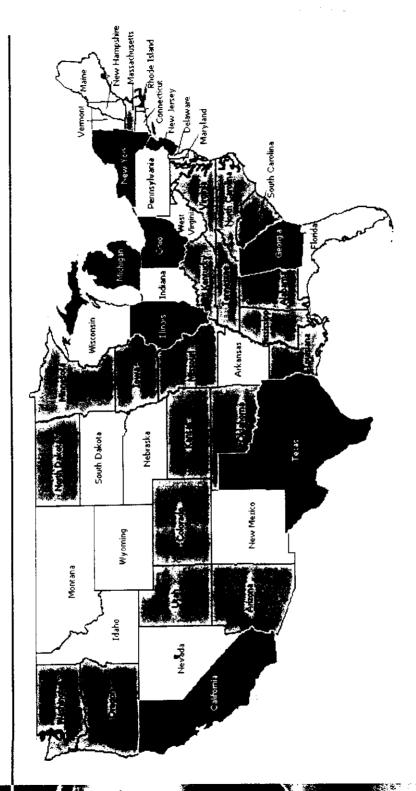
71

71

**T**;

11

11



MCI and AT&I Operations

MCI through 2-1EL and AT&I Operations

MCI Operations through 2-1EL

MCI Operations

NO Operations

🚜 UBS Warburg

John Hodulik, CFA (212) 713-4226, john.hodulik@ubsw.com

۵

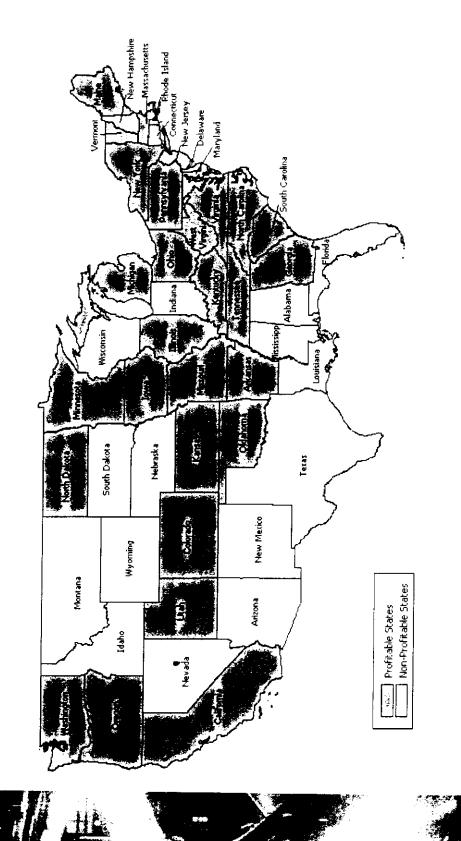


- ♦ Economics of UNE-P are Worse than We Originally Expected
  - UNE-P lines generate negative EBITDA in 18 states for the Bells (60% of US residential lines)
  - SBC's Ameritech region is the most attractive for UNE-P competitors
- ◆ UNE-P Line Growth Will Be Greater than the Market Expects
  - UNE-P lines can be profitable in 33 states, suggesting further entry (82% of US residential access lines)
  - AT&T presents the most significant threat.
    - Its 40% share of the consumer LD market presents an immediate target
    - AT&T sees opportunities in 14-17 states, but announced entry in 8 states.
  - The Bells exited 2Q02 with 7.5M UNE-P lines (5% penetration).

	2000a	2001a	2002e	2003e	2004e	2005e
UNE-P Lines	2,923	5,652	11,152	18,146	22,367	25,136
<b>UNE-P Penetration</b>	1.7%	3.4%	7.2%	12.2%	15.2%	17.3%







🚜 UBS Warburg

John Hodulik, CFA (212) 713-4226, john.hodulik@ubsw.com

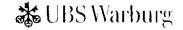


### **♦ Long Distance Opportunity is Only a Partial Offset**

- Bells only need to add <u>1.3</u> long distance customers for each UNE-P line added to breakeven at *revenue* line
- However, the Bells need to add <u>5.4</u> long distance customers for each UNE-P line added to breakeven at *EBITDA* line
- UNE-P IS AN EBITDA STORY, NOT A REVENUE STORY

	<u>2002e</u>	<u>2003e</u>	<u>2004e</u>	<u>2005e</u>
LD subs	19,905	34,524	41,460	45.223
UNE-P subs	11,152	18,146	22,367	25,136
LD subs / UNE-P subs	1.8	1.9	1.9	1.8

**♦ We Do Not Expect Near-Term Regulatory Relief** 





### ♦ Anticipate that EPS Will Decline in 2003 for the Bells

EPS highly sensitive to growth in UNE-P



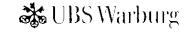
	Revenue lost	EBITDA lost	EPS In	npact assum	ing local line	loss of	_	Free Cas	sh flow Impa	act
	per line / mo	per line / mo	1M	2M	3M	5M	1M	2M	3 <b>M</b>	5M
0	\$19.76	\$17.04	\$0.04	\$0.08	\$0.12	\$0.20	\$137	\$274	\$411	\$685
	<b>₩</b> .89	15.26	0.04	0.09	0.13	0.22	123	245	368	614
3	18.29	15.65	0.06	0.13	0.19	0.32	126	252	377	629
	14.73	11.98	0.05	0.09	0.14	0.24	96	193	289	481

We estimate that 8M lines lost translates into \$1B OpFCF loss

### Summary

Poor Economics of UNE-P + Higher UNE-P Line Loss = Lower Profit and EPS for the Bells







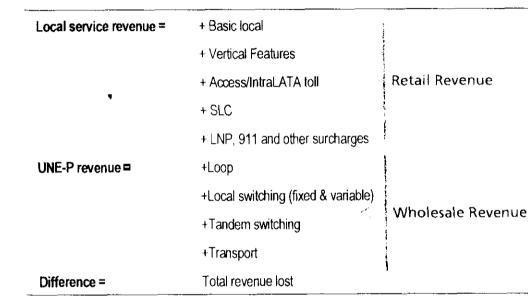
### UNE-P Economics: Calculating the Impact

- 1) Calculate Revenue Impact Per Line Lost
- 2) Estimate Average Retail COGS and SG&A per Line Based on **Existing Wireline EBITDA Margins**
- 3) Calculate Wholesale EBITDA Contribution
- 4) Estimate Future Line Loss in Each State

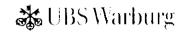


### **UNE-P** Economics: Calculating the Impact

### 1) Calculated Revenue Impact Per Line Lost



Source: UBS Warburg LLC and company reports



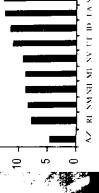
# JNE-P Economics: Calculating the Impact

### Revenue Lost Per UNE-P Line

- Arkansas (SBC) \$35
- Average retail rate (including vertical services and subscriber line charges) is \$51; Average UNE-P rate is \$16
- Arizona (Qwest) \$5
- Average retail rate is \$33; Average UNE-P rate is \$28

18 states surpass the average:
6 are in SBC region, 5 in VZ.
4 in BLS, 3 in Q

Average revenue lost is \$18.57 per line



7

Source: UBS Warburg LLC and company reports



John Hodulik, CFA (212) 713-4226, john.hodulik@ubsw.com

### UNE-P Economics: Revenue Impact - SBC

510T =	:ssə7	lstoT	:sn[d	:કભાવ	:\$njd	:sn <sub>id</sub>		
Revenue Los	NNE-6	Retail Revenue	₃s∩	Accessintral ATA toll	Vertical serv.	2FC	Basic Local Service	
25 4 <b>4</b>	26.8	98.18	75.0	00 S	00'6	6 <b>7</b> 7	15 20	sionilli
18 34	70.71	35.41	710	00.8	00.6	6 <b>#</b> 'S	12.50	eneibal
28.00	47.51	ÞEOÞ	£4.0	90.8	00.6	18.8	21.00	Michigan
19.61		34.02	24.0	00.8	00.6	35.8	14.25	онО
£2 61	89.91	39.21	62.0	90.8	00.6	€0′5	96'61	Misconsin
18.13	89.11	29.81	110	00.8	00.6	0 <b>b.</b> p	76.01	California
12.04	18.02	38.55	79'0	00.8	00.6	69'5	12.54	Connecticut
86.9	21,15	39:08	46.0	00.8	00.6	92.2	97.01 97.01	Mevada
90'98	78.81	89.18	84.0	00.8	00.6	2 20	96 18	Arkansas
DE ZI	95.81	34.13	84.0	00.8	00.6	5.20	9p*#1	Kansas
12.71	16.37	86.88	84.0	00.8	00.6	5.20	06'91	Missouri
1981	51/81	34.96	84.0	00.8	90.6	6.20	12.28	Oklahoma
21 12	1671	£9.6£	84.0	00.8	00.6	5.20 5.20	96 61	Texas Avacage II of all
97.91 57.15	13.40	34.25	AA.0	00.8	00.6	60.8 \$.09	88.ht <b>23</b> .21	Average Details
\$1.73		85.28	96.0	900'\$	00.6	•		Avg. Ameritech
21411 2114	Shared transport	Tandem switching		Local Switchin	les"'d	dool	nediU	
-Avg. UNE-	ber MOU	per MOU	Det MOU	per port	Rural 11.40	Suburban 7.07		South
Z678	8000.0	00000	behmilau Neon a	10.2 Kr a			2.59	SiOutili
Z0'Z1	£000°0	00003	0.0034	£3.5	66.8 Ne c i	21.8 57.8	£0.8 71.8	Sneibní
12.74	\$000.0	1100.0	0.0032	2.53	12 54	£7.8 79.7	71×.8	Michigan
14.41 83.01	eu	2000'0	3500.0	89 V	29.6	76.T	66.8 00.01	Оио
89.61	0.0011	2000°0	8000.0	86.№	06.01	06'01	10.90 10.90	Misoonsim
8911	6100.0	0.0001	\$500.0	88.0 15.5	£9.61	1211	£8 8 20 8	Сантоепе
18.02	£200 <b>U</b>	0.0020	2700.0	18.6 531	69'61	15.03	\$6.8 47.11	Connecticut
21.12	\$600.0	81000	9100.0	£9.1	18.88 18.88	13.64	27.11 38.11	Nevada
68 91 - 1 79 91	\$000.0 \$000.0	Z100°0	8f 00.0 8f 00.0	191 191	\$2.34 23.34	13.64 13.64	98.11 98.11	Arkansas X agese
		80000			23.30 \$3.34			Kansas
76.61	\$000.0	8000.0	0.0021	2.06	33.29	13.65	17.51 17.51	Missoun
5021 51/81	6n 1 000 0	0100.0	0.0021	25.32	25.25 86.81	13.65	\$1.21 \$1.31	Oklahoma
1671 1671	1,000,0	8000.0	1200.0	2.90		11.32		Texas
	8000.0	9000.0	8100.0	£7.5 4.39	10.81 67.01	12.8	₹8.8 ₹6.3	Average Avg. Ameritech

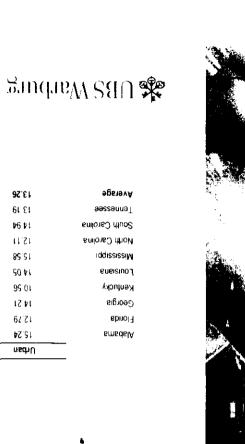




### UNE-P Economics: Revenue Impact - BellSouth

18'50 11'00 18'70 15'00 15'00 15'00 15'00 15'00 15'00 16'01	18:43 17:18 18:43 18:15 18:15 18:15 18:15 18:15 18:15 18:15 18:15 18:15 18:15 18:15	7612# Revenue 39.29 40.44 41.39 36.12 36.14 36.14 36.14	450 670 670 670 670 670 670 670 670	00.2 00.2 00.2 00.2 00.2 00.2 00.2 00.2	Verlical serv.  11,50  11,50  11,50  11,50  11,50  11,50  11,50  11,50  11,50	00'9 00'9 00'9 00'9 00'9 00'9 00'9 00'9	Basic Local Service 16.30 17.45 18.40 19.01 19.01 19.03 19.15	Alabama Florida Georgia Loursiana Mississippi Morfin Carolina South Carolina Fennessee Fennessee
15.96 20.23 20.23 20.23 20.23 20.23	16.69 18.79 21.21 23.08 77.12 76.69 81.69	93.98 96.00 96.18 96.00 97.39 97.39 97.39	69'0 69'0 69'0 69'0 69'0 69'0	00'S 00'S 00'S 00'S 00'S 00'S 00'S	05.11 05.11 05.11 05.11 05.11 05.11	00.9 00.9 00.9 00.9 00.9	00 11 60 51 60 51 60 51 61 51 61 51	Florida Georgia Kentucky Loursiana Mississippi Morth Carolina Morth Carolina
17.96 20.23 20.23 20.23 20.23 20.23 20.23	27.81 21.21 80.62 77.12 90.81 81.71	40.04 65.14 65.65 81.66 81.66 41.85	64.0 64.0 64.0 64.0 64.0	00'S 00'S 00'S 00'S 00'S 00'S	02.11 02.11 02.11 02.11 02.11	00'9 00'9 00'9 00'9 00'9	51 21 80 51 61 81 10 61 19 21 01 81 51 71	Georgia Kentucky Loursiana Mississippi Morffi Carolina South Carolina Tennessee
72.95 20.23 20.23 77.96 77.96 77.96	\$0.81 80.82 77.12 69.81 81.91	65.14 65.65 66.75 66.75 66.75 66.14	60°0 60°0 60°0 60°0 60°0	00'S 00'S 00'S 00'S 00'S	02.11 02.11 02.11 02.11 02.11	00'9 00'9 00'9 00'9	61.51 60.51 61.51 61.51 61.51	Kentucky Louisiana Mississippi Modfi Carolina South Carolina
66.51 66.53 66.53 66.53	23.08 77.12 18.69 81.71	39 98 99 98 99 98 99 98	6p'0 6p'0 6p'0 6p'0 6p'0	00'S 00'S 00'S 00'S 00'S	08.11 08.11 08.11 08.11	00'9 00'9 00'9	19 21 60 51 60 61 51 21	Louistana Mississippi North Carolina South Carolina Tennessee
20.23 18.59 18.59	77,12 69,81 81,97	96.18 36.02 36.14 41.25	6p'0 6p'0 6p'0	00'S 00'S 00'S	05.11 05.11 06.11 06.11	00.8 00.8 00.8	10.61 61.51 61.51	Mississippi South Carolina Tennessee
96 ZI 65 81 6 <b>7</b> ZI	69.81 £4.91 81.71	36.18 36.14 36.14	6Þ'0 6Þ'0	00.2 00.2	02.11 02.11 02.11	00'9 00'9	13.19 12.15 12.15	Morth Carolina South Carolina Tennessee
98.81 98.71	81.71	38.02	6 <b>7</b> 0	00.2 00.2	08.11 08.11	00.8	15.03 12.15	South Carolina Tennessee
96.71	81.71	32.14	64.0	00°S	05.11	00.9	15.15	Tennessee
	i							
18.29	£4.81	36.72	61.0	5.00	11.50	00.9	ET.E!	Average/Total
	, ₹		7					
	Shared transport	Sandem switching	ξi.	Local Switchin		doo j		
Avg. UNE-I	UOM 19q	UOM 19q	DOM 190	per port	Rural	Suburban	ուտիՍ	
22.82	\$100.0	\$100.0	0.0020	20.2	44,85	24.75	15.24	smedelA
69'91	00000	0.0002	8000.0	0 <b>b</b> .1	38.86	75.71	12,79	Florida
67.81	0.0002	2000'0	91000	<b>38.</b> ↑	80.08	1641	14 21	Ceorgia
15 15	<b>▶</b> 000°0	0.0002	0.0012	€ <b>₽</b> .f	31.11	1234	99 01	Kentucky
23.08	<b>₹</b> ₩00°0	8000.0	0.0021	2.55	0£.94	24.14	30 pl	Foniziona
	<b>№</b> 000.0	8000.0	0.0024	2.11	79.51	20.65	15.58	iqqississiM
21.17			21000	2.19	33.65	21.24	12.11	Morth Carolina
i	0.0003	6000.0	4100.0					

17.23



0100.0

81.71

### UNE-P Economics: Revenue Impact - Verizon

	_	SOL	:Sni.a	:snt.i	Snid	1910.1	:saa T	16301 ==
	Basic Local Service	arc	Vertical serv.	Not ATA Jatinfree toll	#\$N	Retail Revenue	ONE-6	Revenue Los
Connecticut	13 43	69.8	00.6	00°S	Z9 0	<b>₽</b> 7.££	20.81	15.93
DC	87.51	18,€	00.6	00'9	<b>25</b> .0	31.22	78.21	35.21
Delaware	11.29	00.8	00.6	5.00	78.0	38.15	£0.9t	15.83
Maryland	18.31	6919	00'6	9.00	78.0	₹0.5€	S8.8t	18.25
Ием Тегзей	TA.T	00'9	00.6	00.8	<b>45</b> 0	\$0.82	12.61	15.43
ыпідпу ІгаМ	59.00	00.9	9.00	9.00	78.0	∠9'6 <b>v</b>	26.50	73.07
Pennsylvania	19.11	00.8	00.6	9.00	<b>49</b> 0	32.18	11.21	10.11
Virginia	15.64	00.8	00.6	90.8	<b>49</b> 0	33.21	10.71	p1.81
Maine	16.35	00.8	00.6	5.00	<b>ZS 0</b>	36.9€	15.34	75.15
Wassachusetts	16.85	00.9	00 6	00.8	2 <b>5</b> 0	37.42	60.81	22.33
Исм Натрыне	98 £1	00.8	00.6	9.00	<b>49 0</b>	EA.AE	59.54	68 8
1/ew York	30.11	00.8	00.6	00°S	<b>19</b> 0	31.62	12.33	82.91
Rhode Island	14.78	00.8	9.00	00°S	£ <b>9</b> 0	5£.2£	27.46	68 T
VermonI	17.20	00.8	00.6	00°S	<b>£5</b> 10	71.7£	28.51	23.92
leto TageravA	14.51	96.5	00.6	00°S	72.0	35.99	01.21	68.T1
	20011	doo j	1	Local Switchin		Usedem switching	Shared transport	
1	nschU	Suburbar	Rural	ber port	Der MOU	ber MOU	Der MOU	Avg. UNE-P
Connecticut	56.8	12.03	68.61	15.6	0.0030	0.000.0	ยน	18.02
DC	18 01	1801	18.01	99°1	0.0030	0100.0	6100.0	18.21
Delaware	20 01	13.13	29'91	2.23	8200.0	7000.0	1000.0	16 03
puejáleM	11 21	15.82	96'57	06.1	8600.0	7000.0	<b>≱</b> 000.0	S8.81
Ием Легѕеу	\$1.8	69.6	10.92	£7.0	9200 0	6100.0	0.0025	12.61
ылем Учения	66 ÞI	22.04	43.44	09"1	2700.0	2000.0	7000.0	56.50
Pennsylvania	92 01	00.11	00.41	79.5	1100.0	8000.0	1000.0	11 51
ъни <b>р</b> п∨	<b>⊅</b> Z'01	57.91	0≱′6Z	1.30	1500.0	9000.0	1000.D	20 21
Maine	77 11	13.47	92.81	<b>≯</b> 6′0	Z100'0	0.0022	6000.D	PE 51
Massachussetts	75°Z	11.41	20.04	2.00	0.0033	\$100.0	0.0022	60.21
ием Натрыте	10.41	78.21	24.09	231	6200.0	9100.0	0100.0	75.54
Mew York	07.7	15.11	18.81	78.5	1100.0	<b>6</b> ñ	6n	12.33
Rhode Island	61.11	pp'Sl	19.13	98.1	7210.0	0.0012	0.0022	S7.46
Vermont	7.72	SE.8	21.63	1.03	00000	6000'0	9000'0	13.85
Average	<b>₽</b> £.6	12.33	31.81	86. r	0.0026	7000.0	8000.0	01.21





### UNE-P Economics: Revenue Impact - Qwest

						.I.	•	
		Plus:	Plus:	Plus:	Plus	Total	Less:	= Total
	Basic Local Service	SLC	Vertical serv.	Access/IntraLATA toll	USF	Retail Revenue	UNE-P	Revenue Los
Arizona	13.18	6.00	8.00	5.00	0.56	32.74	28.10	4.64
Colorado	14.92	6.00	8.00	5.00	0.56	34.48	12 88	21.60
Idaho	14.48	6.00	8.00	5.00	0.56	34.04	22.44	11.59
lowa	11.68	4.72	8.00	5.00	0.56	29.96	17.15	12.81
Minnesota	14.36	4.89	8.00	5.00	0.56	32.81	13.45	19.36
Montana	16.73	6.00	8.00	5.00	0.56	36.29	27.34	8.95
Nebraska	19.23	5.16	8.00	5.00	0.56	37.95	25.19	12.75
New Mexico	10.66	6.00	8.00	5.00	0.56	30.22	21.74	8.48
North Dakota	17.69	6.00	8.00	5.00	0.56	37.25	22.90	14.35
Oregon _	13.80	6.00	8.00	5.00	0.56	33.36	20.66	12 70
South Dakota	16 65	6.00	8.00	5.00	0.56	36.21	23.54	12.67
Utah	11 03	6 00	8.00	5 00	0.56	30.59	19.45	11.14
Washington	12 50	5.92	8.00	5.00	0.56	31 98	10.72	21.26
Wyoming	23.10	6.00	8.00	5.00	0.56	42.66	28.26	14.40
Average/Total	13.75	5.75	8.00	5.00	0.56	33.06	18.33	14.73
		Loop		Local Switchir	ng .	Tandem switching	Shared transport	7
	Urban	Suburban	Rural	per port	per MOU	per MOU	per MOU	Avg. UNE-P
Arizona	18 96	34 94	56.53	1.61	0.0028	0.0014	0.0009	28.10
Colorado	5 91	12.31	32 79	1.86	0.0020	0.0020	0.0020	12.88
Idaho	15.81	2401	40.92	1.34	0.0017	0.0032	0 0022	22.44
lowa	13.11	15 64	27.27	1,15	0.0007	0.0042	0.0013	17.15
Minnesota	8.81	12.33	21.91	1.08	0.0018	0.0013	0.0015	13.45
Montana	23.10	23.90	27.13	1.58	0.0007	0.0068	0.0015	27.34
Nebraska	15.14	35.05	77.92	2.47	0.0007	0.0026	0.0012	25.19
New Mexico	17 75	20 30	25.23	1.38	0 0011	0.0016	0.0019	21.74
North Dakota	14 78	24.92	56.44	1.27	0.0007	0.0084	0.0044	22.90

1.26

1.84

0.94

1.34

2.64

1.46

0.0013

0.0035

0.0026

0.0012

0.0038

0.0017

0.0016

0.0017

0.0011

0.0014

0.0016

0.0020

0.0000

0.0014

0.0009

0 0022

0.0003

0.0014

20.66

23.54

19.45

10.72

18.33



**≵** UBS Warburg

Washington

Wyoming

13.95

17 01

14.77

6.41

19 91

12.17

25.20

18 54

17.76

11.35

26.94

19.86

56.21

24.37

20.29

12.76

30 13

34.72